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WORKING PAPER

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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 55

8 June - 14 June 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

US attempts to gain international status for Japan suffered another setback when the Paris ITU conference voted against seating the Japanese delegation (p. 2).

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The fairly serious and protracted border clash in isolated Ongjin peninsula, while presently quiescent, has led to a weakening of the Republic of Korea's security forces (p. 3).

The shift of CCP "soldier-heroes" CHEN and LIU from combat commands to administrative tasks in the Yangtze valley may indicate that the Chinese Communists are becoming more concerned with future peace than present warfare (p. 4). Meanwhile, the reenforcement of the Nationalist position in Taiwan by troops evacuated from the mainland has compounded the confusion there and Communist infiltration of the island continues (p. 5).

While Bao Dai still faces problems in the selection of his cabinet, French militarists and colonials in Indochina continue to hope for a vigorous suppression campaign which will restore firm French control (p. 6).

The unexpected resignation of Senator Tanada from the Quirinista faction of the Liberal Party during the recent convention may further weaken Quirino's position in the November presidential race (p. 7).

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

ITU membership for Japan blocked--The US received another major setback in its attempts to gain full international status for Japan on 10 June when the Paris conference of the International Telecommunications Union voted 24 to 23 (with 7 abstentions) against seating the Japanese Government delegation. This action followed previous conference efforts to admit SCAP representatives as observers and Japanese Delegation members as technicians, a status which the US could not accept without abandoning its position that Japan was entitled to full rights of ITU membership. To avoid compromising this position further, the SCAP representatives will now attach themselves to the US delegation, and the Japanese members will not participate. "B"

Despite the fact that Japan was admitted to full membership in the ITU without opposition at the plenary session of the conference in Atlantic City in 1947, France, as host nation, refused last April to extend an invitation to Japan on the grounds that SCAP's approval of Japanese membership was first subject to consideration by the Far Eastern Council (FEC). The Commonwealth nations generally supported this view, questioning not only the legality of SCAP's authority over Japan's external affairs, but expressing concern over US attempts to "short-circuit" the FEC. The US held that Japanese participation in international affairs was necessary for proper development of responsible government in Japan, and that in the absence of specific FEC policy or US directive, SCAP had acted within its broad executive power provided by the "Basic Post-Surrender Policy". It is this view which was opposed by the 10 June conference vote. That the Commonwealth nations were strongly opposed to the US view presages difficulties in implementing the policy of progressive Japanese resumption of international responsibilities pending peace treaty negotiations and emphasizes once again the conflict between the national interests of the US and its Western allies in the Pacific. That the Soviet Satellite bloc was surprisingly quiet on the question of Japan's participation indicates the probability that the USSR is wary of nullifying the propaganda effect of its recent peace treaty proposal for Japan.

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KOREA

Border clashes continue--Following the withdrawal of US border troops along the 38th Parallel in January 1949, incidents have continued at an accelerated rate and on a larger scale. A major engagement in the Kaesong area, 30 miles north of Seoul, in early May has been followed by a longer battle on the Ongjin peninsula, involving a reported 2,400 Korean Army personnel, 800 National Police, and 1,000 north Korean troops. Action continued at intermittent intensity for more than two weeks and has now diminished to sporadic raids, while north Korean forces still hold a salient south of the 38th Parallel.

"B"

The Korean Republic cannot maintain the defenses of the Ongjin peninsula against strong attack because the area can be supplied from the south only by sea. Despite this obvious tactical disadvantage and the warnings of US advisors, over 1,500 troops were dispatched to reinforce the Ongjin garrison when fighting developed. The Korean Government's determination not to yield an inch of sacred soil, if adhered to in other areas as untenable as Ongjin, could eventually result in a serious weakening of the security forces presently deployed in good defensive alignment along the principle corridors between Seoul and the border.

It is usually impossible to determine whether a specific border incident has been precipitated by northern or southern action and most

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of the continuing incidents appear to have only local significance. There is no question, however, but what border incidents have a definite part in the overall northern Korean plan for neutralization of southern Korea's capacity to resist. Border raids and battles are designed probably to accomplish the following northern Korean objectives: (1) to test the capabilities of southern defenses; (2) to disorganize and disperse defense concentrations along the two main invasion routes into southern Korea; (3) to force a concentration of Korean security forces along the 38th Parallel, leaving the Republic's interior exposed to guerrilla activity; (4) to maintain an atmosphere of fear in southern Korea; (5) to give combat experience to northern Korean troops; and (6) to forestall an invasion of the north.

CHINA

CCP command shuffle--The recent assignment of leading Communist military figures to high political positions may indicate that the Communist High Command now believes the military phase of the revolution is all but finished and of less importance than political and economic aspects of a peaceful future. Appointments of top-rank commanders CHEN Yi and LIU Po-cheng to senior positions in Shanghai and Nanking, appear normal and logical since these sectors must of necessity operate under martial law for the present. While additionally reflecting the known Communist lack of accomplished administrators, these appointments also reflect a desire to exploit the vast prestige of these leaders and in some degree to reward them for past accomplishments. The Communist Party may also wish to separate these tremendously popular soldier-heroes from direct command of their combat troops.

"B"

CHEN and LIU are expected to remain in charge of the lower Yangtze valley at least through the consolidation stage. In view of the need for trade, the Communists also may have decided to exploit these leaders' reputation for being native-minded Communists, relatively tolerant of the West. While unity of political and military policy in the lower Yangtze valley thus is assured, the region may well emerge as a semi-independent entity under CHEN and LIU, taking only general direction from central Communist headquarters.

For this purpose both men are excellent choices and each has demonstrated considerable past administrative ability in organizing military governments in his respective area during the period when military control from Yenan was loose and generalized. Since they remain available for the planning stages of any new operations, moreover, their absence from active

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command will probably not detract materially from future military successes on the part of such leaders as PENG Teh-huai, LIN Piao and MIEN Jung-chen, who retain their combat commands.

Communist infiltration of Taiwan--While the Nationalists successfully evacuated elements of at least eight armies from Shanghai and Tsingtao to Taiwan, upping the island's total troops to at least 100,000, there is reason to doubt Nationalist ability to derive any great benefit from this concentration of strength. Recent reports indicate that Communist infiltration of the island is already underway. Communist radio propaganda aimed at Taiwan, promising the Taiwanese "liberation" from Nationalist oppression, is reportedly meeting with "some success". The CCP is also said to be buying over provincial officials, particularly police. In addition, a US official on the island was recently advised against traveling on the eastern coast of the island because of the presence of numerous armed dissidents there.

"A"

Nationalist Governor CHEN Cheng reportedly has little first-hand knowledge of what is actually happening on Taiwan. There is a widespread lack of stability among Nationalist political organs and dissension is rife in regular troop units, as well as in the Air Force and the Navy. Evacuated troops from Shanghai and Tsingtao clog the ports and present a staggering billeting problem in the already overcrowded island. Poor and discriminatory pay, miserable leadership and low morale cause some officials to express "great worry" concerning continued troop loyalty.

Within the splintered Nationalist ranks on Taiwan there is, as yet, no clearly crystallized determination to fight the Communists. The eventual occurrence of such a determination remains problematic. Although Fokien, just opposite Taiwan on the mainland, is already Communist-infiltrated in its western parts and Keelung and Amoy, its major ports, are threatened, the likelihood of direct Communist military assault on Taiwan is still remote. CHIANG Kai-shek, therefore, will probably be able to retain control of the island at least through 1949 but, over a longer period, his prospects of withstanding Communist exploitation both of Nationalist confusion and of deep-seated Taiwanese opposition to his regime are very poor.

CCP restores Yangtze valley transport--The CCP's swift reopening of limited transportation facilities in the Yangtze valley may permit a revival of commerce in the newly occupied area and, by permitting shipments of rice, cotton, coal and export commodities, may bring Shanghai some measure of temporary economic relief. Restoration of Shanghai's industry and commerce, however, depends upon an adequate fuel supply for the Shanghai Power Company, among other things, and

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the Power Company presently uses oil for fuel. Although any oil shortage could be partly alleviated by reconversion to coal, the Communists probably cannot transport enough coal to maintain full power generation in Shanghai except by the movement of North China's coal by means of chartered foreign vessels.

The few river vessels left behind by the Nationalists in Shanghai and other ports on the Yangtze River began a Shanghai-Hankow run on 3 June and two more scheduled runs were soon established. Overland transport in the lower valley, chiefly on the Tientsin-Pukow and Nanking-Shanghai railroad lines, has been brisk. Small amounts of Hainan coal have been rushed to Nanking and Shanghai, as well as larger shipments of rice and edible oils from Wuhsi and other rice markets in the Yangtze delta. The Peiping-Hankow railroad is not yet open to through traffic but a section in Honan province north of Hankow should be in operation soon, as should the Hangchow-Nanchang section of the Chekiang-Kiangsi railroad.

INDOCHINA

Bao Dai's problems--Bao Dai arrived in Saigon on 13 June from Dalat to prepare plans for an exchange of letters between himself and French High Commissioner Pignon and possibly to announce his cabinet as well as arrange a trip to Hue and Hanoi. There appears to be a misunderstanding between Pignon and the influential Governor of Cochinchina, Tran-van-Huu, as to the timing of the Bao Dai cabinet announcement. Pignon expects this action to take place before Bao Dai's visit to the north, but Huu believes that it may be postponed pending further consideration of the cabinet's composition. Huu's view appears the more likely, since the personal feuds, jealousies, and ambitions of various political leaders are giving Bao Dai serious difficulty in the choice of ministers. In this connection, Bao Dai is assiduously courting certain "moderate" resistance elements for inclusion in his government.

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Despite High Commissioner Pignon's efforts to implement the Bao Dai plan as rapidly as possible, French colonial "diehards" have revived the hope of crushing the resistance by military force and thus reimposing effective French colonial control over all Indochina.

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While other military officials are almost unanimous in desiring the ultimate return of complete French authority, they differ as to the best military strategy under the circumstances. It is apparent,

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therefore, that Bao Dai's many problems in activating his proposed regime will be aggravated by sabotage on the French administrative level and his prospects of eventual success still appear to be very poor.

PHILIPPINES

Quirino nominated for presidency--The Quirinista faction of the Liberal Party held its convention on 11 June and, as expected, unanimously nominated President Quirino as Party candidate for the presidency. The convention failed to agree on a vice-presidential nominee and adjourned on 12 June after resolving to let Quirino himself choose his running-mate. The problem of selecting the 8-man senatorial slate was shunted to the Party's executive committee.

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Jose Yulo is now considered to be Quirino's probable choice. Yulo, a prewar Speaker of the House, was Chief Justice of the Supreme Court in the Japanese puppet government and is a prominent landowner and corporation lawyer. His price is high: Quirino has told the US Ambassador that, in return for accepting the vice-presidency, Yulo wishes to be concurrently Secretary of Finance and have a free hand in shaping the Government's plans for economic development.

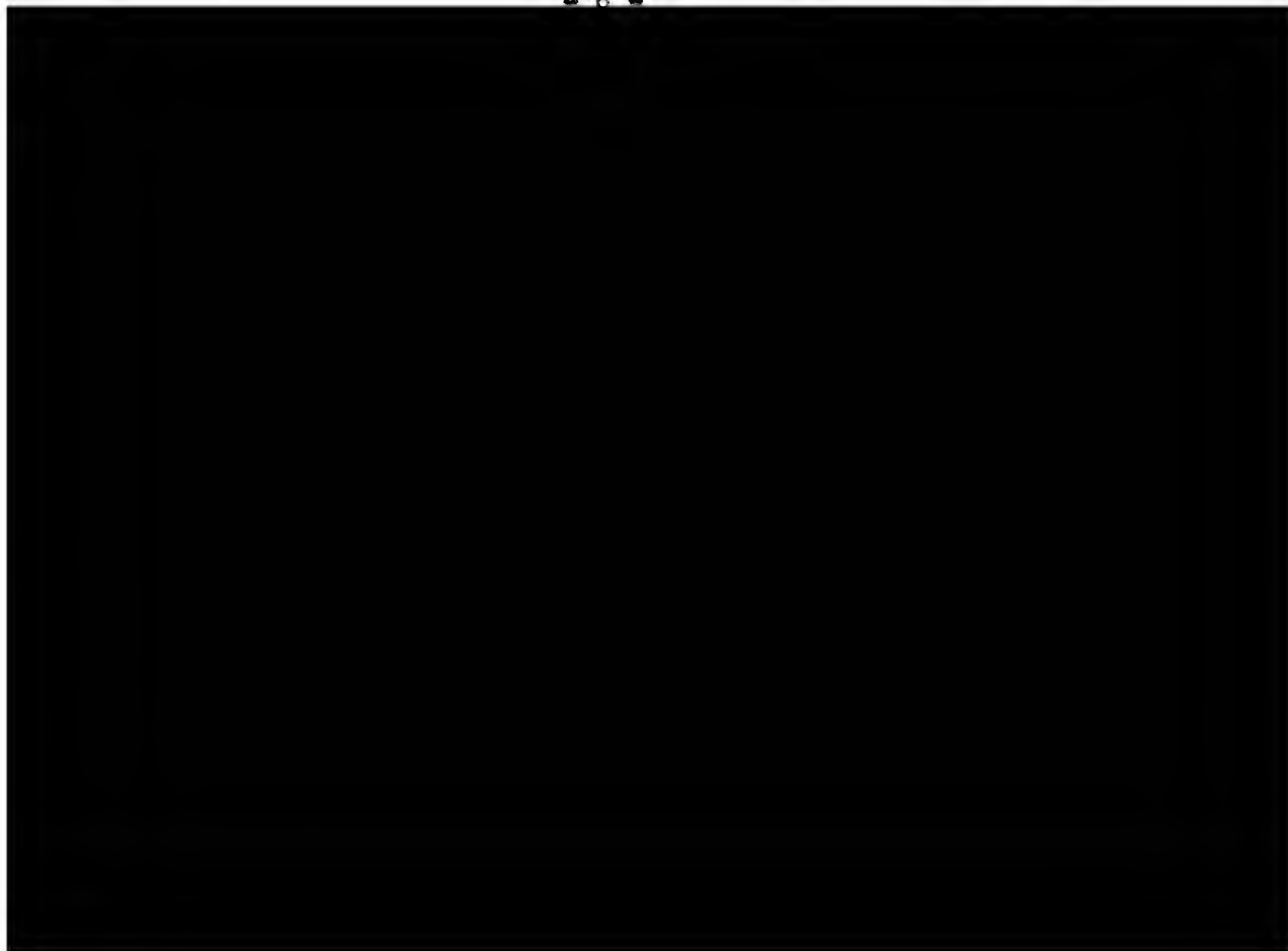
Perhaps the most significant political development at the convention was Senator Tanada's dramatic and unexpected resignation from the Liberal Party. Tanada, who has an excellent record and has waged an aggressive fight in the Senate for honest government, had been asked by President Quirino to deliver the convention's keynote address. In two letters released to the public on 12 June, Tanada refused to deliver the address, accused House Speaker Eugenio Perez (President of the Liberal Party) of benefitting financially from the Chinese immigration quota system and charged Quirino with having given his approval to the sale of quotas. Tanada denounced the Liberal Party campaign for a "clean, honest, and efficient government" as a "piece of hardened cynicism". Both Quirino and Perez immediately denied the charges. Although the full effect of Tanada's resignation upon election politics cannot yet be determined, it is certain to result in additional votes for Laurel who has been posing as an honest and efficient servant of the people.

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